

Rate of Return

During the course of the 1978 proceedings, Respondent presented the testimony of two witnesses on the issue of appropriate return, the only expert testimony directly presented on the issue during the original proceeding.

Mr. Joseph F. Brennan, president of an independent consulting firm, testified that the cost of common equity to the Respondent was 14.5%. In arriving at his opinion, Mr. Brennan utilized (1) an evaluation of earnings/price ratios adjusted for issuance costs and market pressure, (2) an analysis of the cost rate for common stock when new shares are sold, or the earnings/net proceeds ratio, (3) discounted cash flow (DCF) technique adjusted for issuance costs and market pressure, (4) comparable earnings, or earnings/book ratio, and (5) the bare rent for the use of capital theory.

Mr. Donald E. Shaw, Respondent's Vice President - Finance, testified that a minimum level of common earnings, expressed as a rate on common stock equity, would be in the neighborhood of 15%.

The Commission in its December 6, 1978 Order concluded that a range of return on Respondent's common equity of between 11.0% and 13.0% would be appropriate. Utilizing the capitalization at December 31, 1977, adjusted for a March, 1978 preference stock issue, a 9.28% overall rate of return was determined appropriate by the Commission. This equated to a 12.53% cost of common equity.

The Circuit Court reversed the Commission on this issue citing the failure of the Commission to base its decision upon the evidence of record.

During cross-examination of the Staff witness, Respondent attempted to bring out that Staff witness had not adjusted his proffered costs of common equity to reflect the costs of issuance and market pressure. Staff agreed there were costs of issuance associated with each common stock issue and that such costs would increase the Respondent's cost of common equity. Staff also stated that market pressure could in some instances exist but Staff did not adjust its cost of common equity to Respondent because market pressure is not subject to verifiable quantification. Staff recognized that Respondent's Witness Brennan had utilized a 10.0% figure for costs of issuance and market pressure, but Staff believed 4% to 5%, excluding market pressure, would be more appropriate. Staff, however, believed it would not be mathematically logical to apply a percentage cost of issuance to total outstanding stock. The Company could but did not provide a study which would have shown actual issuance costs. The Commission is of the opinion that the Company in this instance has failed to justify use of a percentage figure representing market pressure and costs of issuance relating to its common stock offerings in the past. In the absence of actual issuance costs and a reasonable method of determining market pressure no adjustment should be made.

The studies of the Staff witness (Staff Exhibits AF-4, Schedules 1 through 4 inclusive) disclose the comparability of Iowa-Illinois with the Ten Company Barometer Group and Moodys 24 Public Utilities (also used by Company witness Brennan). Schedule 1 of AF-4 discloses the similarity of the average capital structures of Respondent with the two groups. A comparison of the distribution of earnings for the test year (Staff Exhibit AF-4, Schedule 2) does not indicate a significant difference between Respondent and the two groups. Schedule 3 of said exhibit com-

compares the Earnings/Price Ratios, Market/Book Ratios and Market Activity Indices of Iowa-Illinois with the two groups at various time periods. Schedule 4 of said exhibit discloses a comparison of the Earnings/Price Ratios of Iowa-Illinois at various time periods arriving at an average cost of common equity of 12.07%.

The Staff witness also made use of a Discounted Cash Flow approach utilizing a Dividend Growth Rate of 4.23% derived from historical data spanning the period from 1964 to 1978 in costing common equity at 13.00%.

The Commission is of the opinion that the comparisons of the Staff witness justify a conclusion that a reasonable fair range of return on common equity for rate making purposes of its Order entered December 6, 1978, is between 12.07% and 13.00%, utilizing the capital structure appropriately set forth in Staff Exhibit AF-5.

Gas Operations

With regard to Respondent's gas operations, revised gas rate schedules were effectuated on June 19, 1980 as a result of this Commission's June 18, 1980 Order in Docket No. 79-0467. In the proposed Order of Respondent on Remand at page 16, the Company suggested that the revised gas rate schedules, when applied to the sales in the test period in this Docket No. 78-0075, produce an increase in gas revenues for Respondent of \$2,611,000. This increase in gas revenues is greater than the increase which would be produced by rates designed to produce a 10.0% return on the original cost gas rate base of \$32,336,000 originally proposed by the Company in this proceeding. Thus, Respondent should be ordered to continue the revised gas rate schedules filed on June 19, 1980 in accordance with the Commission's Order in Docket No. 79-0467.

Recovery of Uncollected Revenues

Respondent has argued that it should be permitted to recover the difference between the revenue collected under the rates mandated by the Commission's December 6, 1978 Order and the revenue which would have been collected under the rates ultimately determined reasonable by the Commission in this cause on remand.

Respondent's position is based upon the premise that the Commission is vested by law with power to establish rates for a historic period of time. Retroactive ratemaking is an anomaly when viewed in light of the Illinois Public Utilities Act.

The first paragraph of Section 36 of the Act provides as follows:

Unless the Commission otherwise orders, and except as otherwise provided in this Section, no change shall be made by any public utility in any rate . . . except after 30 days' notice to the Commission and to the public as herein provided.

It is clear that any change in rates must be accomplished in a manner which complies with the provisions of Section 36.

Ratemaking is a forward looking process. Rates are allowed to become effective for the future under the first paragraph of Section 36 when a 30 day notice to the Commission and to the public has been provided as required by law and the rules and regulations of the Commission or by Order of the Commission without requiring such notice.

Under the provisions of paragraph 3 of said Section the Commission may suspend the effective date of a proposed rate for a period of time not excluding 120 days and resuspend such rate for an additional period of suspension not exceeding 6 months to inquire into the reasonableness thereof, prior to establishing appropriate rates or approving the rates proposed for a future period of time.

Under the provisions of the fourth paragraph of said section, the Commission is authorized to reduce rates of a public utility by entry of a temporary order prescribing rates to be made applicable for service rendered by a utility for a future period of time when certain conditions are found to prevail.

Contrary to Respondent's position that this fourth unnumbered paragraph would by implication authorize the Commission to establish rates for a historic time period, the Commission is of the opinion that rates can only be established for a future time period. No reasonable interpretation of Section 36 or any other provisions of the Act would empower this Commission to establish a retroactive ratemaking process.

The Commission rejects Respondent's contention. The course of action to be taken by the Commission, in the instant case, must be one which is authorized under the law and in conformity with the Order, the Amended Order of the Circuit Court of Rock Island County, the statements of the Court's Reason for Decision and the Circuit Court's April 16, 1980 Order.

The Court did not otherwise disturb the opinions of the Commission or findings contained therein. Except as otherwise provided in this Order on Remand, the Commission should as a part of this Order on Remand incorporate by reference thereto, readopt and reaffirm the Order of the Commission entered in this cause on December 8, 1978.

As a general rule it may be stated that, the establishment of Public Utility rates is a legislative function, which is vested in the Commission by law subject to review by the judiciary. The rates authorized as a result of the Commission's Order entered December 8, 1978, were established in accordance with the provisions of Section 36 of the Act. The Commission is of the opinion that once so established, such rates continue to remain in effect until such time as new rates are allowed to be placed into effect under Section 36 of the Act and other applicable law.

Conclusion

Having resolved all other issues on Remand, the Commission must now determine if the electric rates, allowed to become effective by virtue of the Order entered December 6, 1978, would have enabled Respondent an opportunity to earn an overall return and return on equity which is found to be fair and reasonable on Remand for ratemaking purposes at December 6, 1978.

After excluding the effect of the Revenue Bill of 1978, it may be determined from the record in this case including the record on Remand that the pro forma Illinois electric operating results of the Company for the test year utilized in this case under electric rates existing prior to the December 6, 1978 Order and under electric rates allowed to become effective by virtue of said Order, would be as follows:

ILLINOIS ELECTRIC OPERATIONS
(000 omitted)

MidAmerican Exhibit 1

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<u>Particulars</u>	<u>Under Electric Rates Existing Prior to Order of 12/6/78</u>	<u>Under Rates Allowed by Order of December 6, 1978</u>
Operating Revenues	\$ 49,699	\$ 56,592
Operating Expenses	<u>39,257</u>	<u>42,665</u>
Operating Income	10,442	13,749
Less: Non-Jurisdictional Income	<u>670</u>	<u>670</u>
Jurisdictional Operating Income	<u>\$ 9,772</u>	<u>\$ 13,079</u>
Original Cost Electric Rate Base	\$142,856	\$142,856
Overall Return on Rate Base	6.84%	9.16%

The appropriate cost of capital computation which discloses the range of return on equity and range of overall return found reasonable for rate-making purposes on Remand is shown by Staff exhibit AF-5 and is restated below:

Iowa-Illinois Gas and Electric Company
Capital Structure and Cost
Test Year Ended December 31, 1977

<u>Component</u>	<u>Amount</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	\$227,189	49.31%	7.08%	3.49%
Preferred and Preference Stock	65,800	14.28	8.61	1.23
Common Equity	<u>167,718</u>	<u>36.41</u>	<u>12.07-13.00</u>	<u>4.39-4.73</u>
	<u>\$460,707</u>	<u>100.00%</u>		<u>9.11-9.45%</u>

It is apparent that under rates in effect prior to the Commission's Order of December 6, 1978, the Company would reasonably be expected to earn an overall return of 6.84% resulting in a return on equity of 5.82%; such returns do not fall within the range of returns found reasonable for Remand purposes. Such rates, which would have developed the foregoing electric operating results, produce an overall return and return on equity lower than the ranges of return found reasonable, and therefore should have been and were properly permanently cancelled and annulled.

Under rates allowed to become effective by virtue of the Order of this Commission entered December 6, 1978, Illinois pro forma electric operations would have resulted in an overall return of 9.16% and an imputed return on equity of 12.19%, utilizing the appropriate components of the foregoing cost of capital computation. Such overall return and return on equity fall within the range of reasonableness found appropriate for purposes of this remand Order. The Commission is of the opinion that the electric rates allowed to become effective by virtue of the Order entered December 6, 1978, are just and reasonable and reasonably enabled the Company to earn a fair and reasonable return on its original cost electric rate base determined appropriate for rate making purposes.

The Commission, having examined the entire record herein, and now being fully advised in the premises, is of the opinion and finds that:

- (1) Iowa-Illinois Gas and Electric Company, an Illinois corporation, is engaged in the generation and supply of electric energy and the distribution and sale of natural gas in Illinois and elsewhere, and is a public utility within the meaning of an Act entitled, "An Act concerning public utilities," as amended;
- (2) the Commission has jurisdiction over Respondent and of the subject matter herein;
- (3) on January 11, 1978, Respondent filed with this Commission Filed Rate Schedule Sheets containing rate schedules and other tariff provisions by which it proposed certain changes and a general increase in gas and electric rates for various classifications of service, effective February 11, 1978; said tariff filing was accompanied by an appropriate supplemental statement in accordance with the rules of the Commission;
- (4) due notice of the filing of said Filed Rate Schedule Sheets was given pursuant to law and the rules and regulations of this Commission;
- (5) on February 8, 1978, the Commission suspended the proposed Filed Rate Schedule Sheets to and including June 10, 1978, and on June 7, 1978, resuspended said Filed Rate Schedule Sheets to and including December 10, 1978, all in accordance with provisions of Section 36 of the Act;
- (6) on December 6, 1978, the Commission issued an order in this cause, which, inter alia, cancelled Respondent's proposed Filed Rate Schedule Sheets, computed income tax calculations recognizing the impact of the Revenue Bill of 1978, and required Respondent to file rate schedules which would produce a return of 9.28% on an original cost electric rate base of \$142,856,000 and an original cost gas rate base of \$32,336,000;
- (7) on February 22, 1980 and March 1, 1980, the Circuit Court of the Fourteenth Judicial Circuit, Rock Island County, Illinois, set aside the Commission's December 6, 1978 Order, holding the Commission's determinations regarding rate of return and the utilization of the Revenue Bill of 1978 to be against the manifest weight of the evidence;
- (8) notice of the initial Hearing on Remand held in this cause was mailed by the Chief Clerk of the Commission to Respondent, the Mayor, City Attorney, and Clerk of the municipalities located within the Respondent's service areas in Illinois, and to such other persons or entities as shown by the docket sheets maintained by the Chief Clerk of the Commission, all in accordance with the rules and regulations of this Commission; notice of subsequent hearings was mailed by the Chief Clerk of the Commission to such parties as are shown by the docket sheets maintained by the Commission for purposes of this case;
- (9) statements of fact and conclusions reached in the prefatory part of this order are amply supported by the evidence of record and are hereby adopted as findings of fact;

- (10) for the purpose of this cause, all income tax computations have been made without recognizing the impact of the provisions of the Revenue Bill of 1978;
- (11) electric rates which were allowed to become effective by order of the Commission entered December 6, 1978, and now in effect for electric service furnished to the Illinois customers of Respondent are fair, just and reasonable and enabled Respondent an opportunity to earn an overall return of 9.16% and a return on equity of 12.19% which are within the range of reasonableness found appropriate for purposes of this Order on Remand;
- (12) electric rates proposed by Respondent in its tariff filings of January 11, 1978 and February 28, 1980, are not in all respects fair, just and reasonable in that such rates would result in overall returns on the Company's original cost electric rate base and equity in excess of the ranges of returns approved for purposes of this Order on Remand, and were therefore appropriately permanently cancelled and annulled;
- (13) rates which are currently in effect for gas service furnished to Illinois customers of Respondent were directed by Commission Order of June 18, 1980 in Docket No. 78-0467; such current rates, when applied to sales in the test period in this cause, produce revenues greater than would be produced by rates designed to produce a 10.0% return on an original cost gas rate base of \$32,336,000; such current gas rates shall therefore not be revised by this Order on Remand;
- (14) Respondent's right to recover from its current Illinois customers additional revenues resulting from an alleged underrecovery during the time between the entry of the Order of this Commission on December 8, 1980, and the entry of the instant Order on Remand should be denied;
- (15) the Commission's December 6, 1978 Order in this cause should be incorporated herein by reference thereto and readopted and reaffirmed in all respects not inconsistent with this Order on Remand;
- (16) any objections and motions made in this proceeding that remain undisposed of should be considered disposed of in a manner consistent with the ultimate conclusions herein contained.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the electric and gas rates now on file with this Commission and in effect for electric and gas service furnished to the Illinois customers of Iowa-Illinois Gas and Electric Company are just and reasonable in all respects for purposes of this Order on Remand, and should be allowed to so remain in effect.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby, denied the right to recover additional revenues, by means of a surcharge or otherwise, from existing customers representing alleged losses incurred for any reason whatsoever during the period of time between December 8, 1978, and the date of this order.

IT IS FURTHER ORDERED that the Commission's December 6, 1978, Order in this case be, and it is hereby, incorporated herein by reference thereto and readopted and reaffirmed in all respects not inconsistent with this Order on Remand.

IT IS FURTHER ORDERED that any motions or objections, made by any party hereto during the course of this proceeding, which remain undisposed of be, and the same are hereby, disposed of in a manner consistent with the rulings and ultimate conclusions contained in this order.

By order of the Commission this 18th day of March, 1981.

(SIGNED) MICHAEL V. HASTEN

Chairman

(S E A L)

Commissioner Stalon concurs; a concurring opinion will be filed.

ORDER 79-0467

ILLINOIS COMMERCE COMMISSION

Iowa-Illinois Gas and Electric Company :
: 79-0467
Proposed general rate increase in :
natural gas rates. :

ORDER

By the Commission:

On July 26, 1979, Iowa-Illinois Gas and Electric Company ("Respondent") filed its 2nd Revised Sheet No. 6, 2nd Revised Sheet No. 7, 2nd Revised Sheet No. 8, 2nd Revised Sheet No. 9, 2nd Revised Sheet No. 10, 2nd Revised Sheet No. 11 and 2nd Revised Sheet No. 12, ILL.C.C. No. 7 ("Filed Rate Schedule Sheets") in which it proposed a general increase in rates for natural gas service to become effective August 26, 1979.

It appeared from an examination of the Filed Rate Schedule Sheets that the Commission should enter upon a hearing concerning the propriety of the proposed general increase and that pending the hearing and the decision thereon, the proposed general increase in natural gas rates should not go into effect. On August 22, 1979, the Commission suspended the proposed increase to and including December 23, 1979, and thereafter on December 19, 1979, resuspended the proposed tariff revisions to and including June 23, 1980, in accordance with the provisions of Section 36 of the Illinois Public Utilities Act.

Notice of the proposed increase was posted in Respondent's business offices and published in newspapers of general circulation in Respondent's Illinois service area.

Pursuant to notice as required by law and the rules and regulations of the Commission, the cause came on for hearing before a duly authorized Hearing Examiner of the Commission at its offices in Springfield, Illinois on October 18, 1979. Appearances were entered by counsel on behalf of Respondent and by members of the Commission's Policy Analysis and Research Division, Accounts and Finance Department and Engineering Department - Gas Section of the Public Utilities Division ("Staff"). Respondent presented evidence, both oral and documentary, in support of the proposed rate increase. Further hearings were held on December 12, 1979 and on January 21, January 22, March 20 and April 10, 1980. At the conclusion of the hearing on April 10, 1980, the case was marked "Heard and Taken". A petition for intervention was filed on August 30, 1979, by the Quad-Cities Consumer Energy Council. The Commission granted said petition for intervention on October 10, 1979. The Intervenor did not appear nor participate in any of the proceedings.

Nature of Respondent's Operations

Respondent is engaged in the business of generating, transmitting and selling electric energy and distributing and selling natural gas in the States of Iowa and Illinois. Natural gas is distributed in the municipalities of Rock Island, Moline and East Moline, Illinois and in Davenport and Bettendorf, Iowa (known as the Quad-Cities area), in Cedar Rapids, Fort Dodge, Iowa City and Ottumwa, Iowa and in certain adjacent communities and surrounding areas.

Natural gas is purchased from two pipeline companies, Natural Gas Pipeline Company of America ("Natural") and Northern Natural Gas Company ("Northern"). Gas is purchased from Natural

for all the service areas of Respondent except for the Fort Dodge, Iowa, service area, for which gas is purchased from Northern. In addition, Respondent has a liquified natural gas plant at Bettendorf, Iowa, and two liquified propane gas plants at East Moline, Illinois and Cedar Rapids, Iowa, which provide a portion of its available gas supply.

Rate Structure and Design

Respondent proposed no changes in rate structure in this proceeding.

Respondent's natural gas rates are designed to produce revenues equal to the revenue requirement of its Illinois operation. The revenue requirement takes into account the operating and capital costs incurred in providing utility service.

Respondent has proposed that any increase in residential gas rates be an increase in the customer charge only, with no increase in energy charges. It also proposed that the customer charge portion for the general service rates be increased a greater percentage than the energy charge portion. A witness for Respondent testified that the proposed customer charges would still be well below the estimated customer-related costs.

No increase was proposed for Rate 88, Limited Firm Gas Service, under the premise that Respondent wished to keep that rate below the cost of oil in order to encourage customers to purchase gas under the rate in lieu of using oil. Respondent maintained that the margin from these sales benefits other customers.

Respondent proposed a change in rate application for individually metered apartments of three or more units such that only the common use of gas for water heating and other incidental uses would be served on the residential rate. Central space heating for any such premises would be served on the general service rate.

Respondent's proposals with regard to rate structure and design are reasonable and should be approved.

Rate Base

Respondent used a test year consisting of the twelve months ended May 31, 1979, with the data adjusted for known changes. This data was the most recent available data at the time of filing of the Filed Rate Schedule Sheets.

Respondent presented evidence that the net original cost of its utility plant in service, as of May 31, 1979, was \$33,580,000. Contributions in aid of construction were offset against plant investment.

Respondent also presented evidence on a fair value rate base. Respondent began by trending its utility plant by the Handy-Whitman Index, Public Utility Construction Costs for the North Central Division. A Project Engineer for Black and Veatch, Consulting Engineers, testified that he tested the applicability of the Handy-Whitman indices against Respondent's actual construction experience. He stated he found Respondent's cost trends to be comparable to those of the Handy-Whitman Index.

Exceptions for trending were made by Respondent for land and land rights, intangibles, leases, general equipment, and the liquified propane gas plant in Cedar Rapids, Iowa, all of which were included at original cost.

ILLINOIS GAS OPERATIONS PRO FORMA
PRESENT RATES YEAR ENDED MAY 31, 1979

MidAmerican Exhibit 8.1

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(000 Omitted)

<u>Particulars</u>	<u>Amounts</u>
Operating Revenues	\$49,055
Operating Expenses	46,662
Operating Income	<u>\$ 2,393</u>

A Staff witness from the Accounts and Finance Department proposed an adjustment to Respondent's advertising expenses. Said witness proposed to deduct from the pro forma operating expenses of Respondent the amount of \$9,406, representing amounts for advertising of \$2,942 for Area Development, \$4,716 for Rate Understanding and \$1,748 for Goodwill.

In the opinion of the Staff witness advertising costs of this nature are more properly borne by the shareholders than by the ratepayers. Under cross-examination the witness indicated his belief that advertising categorized as rate understanding constitutes image building on the part of a company.

In rebuttal a witness for Respondent testified that, in his opinion, the communications at issue complied with the spirit of the Public Utilities Regulatory Policies Act of 1978, Sections 113(b)(3) and 115(f). The Commission is of the opinion that the Staff's adjustment is reasonable and accepts it.

A Staff witness from the Accounts and Finance Department proposed to eliminate Respondent's weather normalization adjustment consistent with the Commission's Orders in Peoples Gas, Light and Coke Company, Docket No. 79-0073; North Shore Gas Company, Docket No. 79-0072; Northern Illinois Gas Company, Docket No. 79-0133 and United Cities Gas Company, Docket No. 79-0290. In those cases the Commission considered the weather adjustments speculation and unsupported by the evidence.

The Staff witness listed the following objections to Respondent's case for a weather normalization adjustment:

- (1) such an adjustment assumes weather is invariant and does not take into account the recognized cyclic behavior of weather;
- (2) there was no evidence to show that the departure from "normal" used by Respondent would even out over time;
- (3) the National Weather Service "weather outlook" for the coming year (when new rates would go into effect) is not based on a long range statistical normal, but on recent and current factors, many of which are meteorological in nature; also, studies made for the Commission Staff by the Atmospheric Sciences Section, Illinois State Water Survey, of weather stations in Northern, Central and Southern Illinois indicated that, since 1901, an average of the preceeding five year period was the best predictor of the next winter's temperatures;
- (4) the adjustment is not based on known change;
- (5) current inflationary conditions make the need for a long range model on which to base future rates less significant as evidenced by Respondent's average of a rate filing every other year during the decade of the 1970's;

- (6) there is no evidence showing a correlation between heating degree days and gas send out;
- (7) there is no evidence showing a correlation between heating degree days and operating income.

Respondent presented additional testimony specifically in rebuttal to that of the Staff witness. A witness for Respondent stated that, while the Commission has eliminated weather normalization adjustments in recent cases involving "all gas" utilities, the Commission has a long history of approving such adjustments. In response to the Staff witness' first objection set forth in the preceding paragraph, Respondent made statistical tests which did find evidence of a cooling trend. Respondent then recalculated the "normal" number of heating degree days using the same historical data in addition to factors in the cooling trend. This witness was unable to find a strong correlation between heating degree days and operating income, but attributed this to other changing factors which impact operating income.

Respondent's witness then presented the results of a study made using historical weather data taken at Lock and Dam 15 to compare with the results of studies made by the Illinois State Water Survey. The results showed that, as with weather stations in the state water survey study, the preceding five year average performed best at predicting the next year's temperatures with thirty years being second.

Respondent's witness agreed on rebuttal that rate increases would be more frequent in an inflationary economy, but rejected this as a reason to abandon weather normalization adjustments when using an extremely cold test year.

After a complete review of all of the evidence the Commission finds that Respondent's proposed weather normalization adjustment is unsupported by said evidence and should be rejected.

After properly reflecting the adjustments hereinbefore allowed pro forma operating results under present rates would be as follows:

ILLINOIS GAS OPERATIONS PRO FORMA
AT PRESENT RATES TEST YEAR ENDED MAY 31, 1979

(000 Omitted)

<u>Particulars</u>	<u>Amounts</u>
Operating Revenues	\$49,826
Operating Expenses	47,053
Operating Income	<u>\$ 2,773</u>

Net operating income of \$2,773,000 represents a return of 8.19% on an original cost rate base of \$33,867,000 and 6.68% on a fair value rate base of \$41,515,000.

RATE OF RETURN

A witness for Respondent presented Respondent's Revised Exhibit 7 showing that the capital structure and costs of long-term debt and preferred equity securities at May 31, 1979 were as follows:

<u>Description</u> (1)	<u>(\$000)</u> (2)	<u>Ratio</u> (3)	<u>Cost of Capital</u> (4)	<u>Composite Cost of Capital</u> (5)
Long-term debt	\$246,636	47.3%	7.21%	3.41%
Preferred stock	20,000	3.9	5.96	.23
Preference stock	<u>55,900</u>	<u>10.7</u>	9.30	<u>1.00</u>
Total long-term debt and preferred and preference stock	\$322,436	61.9%		4.64%
Common equity	<u>198,659</u>	<u>38.1</u>		
Total Capitalization	<u>\$521,095</u>	<u>100.0%</u>		

Respondent presented the testimony of two witnesses relative to the rate of return which it should be allowed the opportunity to earn on the used and useful property allocated and dedicated to providing gas service to its Illinois customers.

The president of an independent consulting firm specializing in rate of return, *inter alia*, testified as an expert witness on behalf of Respondent. The witness utilized "total enterprise" capital structure ratios and related fixed-capital costs rates as a basis for his opinion regarding a fair and reasonable rate of return for Respondent's Illinois gas operations. The witness reviewed recent financial history and certain financial ratios of Respondent as well as those of other utilities for certain periods of time. In addition, the witness studied market data of Moody's 24 public utilities, Moody's 9 gas distribution companies, and barometer groups of 10 electric companies and 3 gas distribution companies comparable to the Respondent. The witness testified that the cost rate for capital should be based upon information gathered from the market place. In his opinion, only if market place data were employed could the Commission ensure over the long run the Respondent's ability to meet its service obligations. The witness also opined that assurance of adequate service could only be achieved if earnings were sufficient to permit (1) the attraction of an adequate amount of capital on a reasonable basis, and (2) the maintenance of the integrity of the value of the rate base.

After a number of calculations based on operating statistical data of Respondent's gas operations and total operations, and application of his judgment and experience the witness concluded that the fair rate of return on common equity on an original cost rate base in this proceeding would be 15 percent and that a reasonable overall return on the fair value rate base would be 9.5 percent.

The second witness testifying on behalf of Respondent was its Vice President-Finance, who also serves as a Director of the Company. The Vice President testified in detail as to the financing requirements of Respondent for the foreseeable future.

During the five year period ended December 31, 1978, Respondent's requirements for capital were raised through the sale of \$219,516,000 of capital securities, consisting of \$107,067,000 of long-term bonds, \$55,299,000 of cumulative preference shares and \$57,150,000 from common share sales to shareholders, employees, and the public. Respondent retired \$19,041,000 of long-term debt at maturity or through sinking funds for a net addition of outside capital of \$200,475,000. The witness testified that, in comparison, Respondent anticipates the required net proceeds

from capital securities sales during the five years commencing January 1, 1979, to be approximately \$306,000,000. The witness stated that Respondent expects to spend \$657,000,000 for new construction during that period.

After various analyses, this witness concluded that, in his opinion and based upon his judgment and experience, a reasonable return to be earned would be 15 percent on common equity based upon an original cost rate base, or 8.5 percent on common equity on a fair value rate base where the weighting of the trended original cost depreciated in the fair value rate base is at least as great as the weighting of common equity in the capital structure.

A Staff witness from the Accounts and Finance Department presented testimony with regard to the fair rate of return on an original cost rate base. The Staff witness sponsored an Exhibit AF-2 which reflected Respondent's capital structure at September 30, 1979, the most recent date for which comparative information was available from the Commission's data bank. Based upon his analysis, the Staff witness arrived at a common equity cost, using the capitalization structure at September 30, 1979, of between 13.5 percent and 14 percent, and used, for the purpose of his computations, a common equity cost, at September 30, 1979, of 13.8 percent.

The Commission after full examination of the record in this case, including the rate of return testimony and the exhibits relating thereto, is of the opinion that a return of 8.32% on the fair value rate base as approved in this order is just and reasonable.

The Commission, having considered the entire record in this proceeding and being fully advised in the premises, is of the opinion and finds that:

- (1) Respondent is an Illinois corporation, engaged in the generation and supply of electric energy and the distribution and sale of natural gas in Illinois and elsewhere and is a public utility within the meaning of an Act entitled, "An Act concerning public utilities", as amended;
- (2) the Commission has jurisdiction over the Respondent and of the subject matter herein;
- (3) on July 26, 1979, Respondent filed with this Commission Rate Schedule Sheets containing rate schedules by which it proposed certain changes and a general increase in gas rates for various classifications of service, effective August 26, 1979; said tariff filing was accompanied by an appropriate supplemental statement in accordance with the rules of the Commission;
- (4) due notice of the filing of said Filed Rate Schedule Sheets was given pursuant to law and the rules of this Commission;
- (5) on August 22, 1979, the Commission entered an order suspending the effective date of the Filed Rate Schedule Sheets to and including December 23, 1979, and on December 19, 1979, resuspended said rate schedule sheets to and including June 23, 1980, all in accordance with the provisions of Section 36 of the Act;
- (6) notice of the initial hearing held in this cause was mailed by the Secretary of the Commission to Respondent, the Mayor, City Attorney and Clerk of the Municipalities located

within Respondent's service areas in Illinois and to such other persons or entities as shown by the docket sheets maintained by the Secretary of the Commission, all in accordance with the rules and regulations of this Commission; notice of subsequent hearings was mailed by the Secretary of the Commission to such parties as are shown by the docket sheets maintained by the Commission for purposes of this case, all in accordance with the rules and regulations of this Commission;

- (7) statements of fact and conclusions reached in the prefatory part of this Order are amply supported by the evidence of record and are hereby adopted as findings of fact;
- (8) methods used by Respondent to allocate property dedicated to the public in Illinois in furnishing gas service to its customers are just and reasonable and are hereby approved for purposes of this case;
- (9) the gas rate design as proposed by the Respondent is accepted for the purposes of this proceeding;
- (10) use of a pro forma test year ended May 31, 1979 based upon actual operating data is appropriate for ratemaking purposes in this case;
- (11) in determining the fair rate of return which Respondent should be allowed on the value of its rate base as hereinafter determined, the Commission has considered all of the evidence of record, Respondent's capital structure at December 31, 1979 as adjusted for proposed first quarter of 1980 financings, and the principals of just and reasonable rates for utilities and has concluded that the overall rate of return of 8.32 percent on fair value rate base is fair and reasonable;
- (12) the original cost rate base for Respondent's gas operations for the test year ended May 31, 1979 is \$33,867,000; the fair value rate base for Respondent's gas operations for the test year ended May 31, 1979 is \$41,515,000;
- (13) Respondent's operating income for the test year ended May 31, 1979, as adjusted, was \$2,773,000 which is the amount available to Respondent for return under its present rates;
- (14) rates which are now in effect for gas service furnished to Illinois customers of Respondent are inadequate, unjust and unreasonable in that they do not produce a reasonable return to Respondent on its investment in gas plant used and useful in its Illinois operations and recovery of operating costs for gas service furnished to its Illinois customers; existing rates should be permanently canceled and annulled when rates allowed to become effective by virtue of this Order become effective;
- (15) under rates proposed by Respondent in this proceeding, annual Illinois operating revenues of \$51,817,000 would be generated and operating

expenses of \$48,090,000 incurred, resulting in net operating income of \$3,727,000; said net operating income would amount to a rate of return of 11.00% on Respondent's original cost rate base as determined in this proceeding and a rate of return of 8.98% on Respondent's fair value rate base as determined in this proceeding; such return is excessive, unfair and unreasonable and the proposed rates are therefore, not in all respects just and reasonable and should be permanently cancelled and annulled;

- (16) Respondent should be required to file new tariff schedule sheets containing rates that will produce an increase in revenue of \$1,426,000, including add-on tax (\$1,398,000, excluding add-on tax), and annual operating revenue for its Illinois gas properties of approximately \$51,252,000, including add-on tax (\$50,247,000, excluding add-on tax), which will result in annual operating income for its gas operations in Illinois of \$3,454,000; such rates shall incorporate the rate designs proposed by Respondent in this proceeding and shall be proportionate to the increases sought by Respondent in this proceeding; the allowed annual operating income will in turn provide Respondent with a rate of return of approximately 10.20% on Original Cost Rate Base of \$33,867,000, and would in turn provide Respondent with a rate of return of approximately 8.32% on the Fair Value Rate Base; the allowed increase in rates would increase annual operating revenues by 2.86%; such amounts of operating income and return are fair, just and reasonable;
- (17) Respondent's expenses for all wage increases put into effect or planned to be put into effect are in accord with the President's Council on Wage and Price Stability; Respondent's proposed rate increase and the revenue increase authorized herein are also in compliance with the Council's standards;
- (18) any objections and motions made in this proceeding that remain undisposed of should be considered disposed of in a manner consistent with the ultimate conclusions herein contained.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the resuspension order entered on December 19, 1979, be and the same is hereby, permanently cancelled and set aside.

IT IS FURTHER ORDERED that the Filed Rate Schedule Sheets filed in this proceeding on July 26, 1979 be, and they are hereby, permanently cancelled and annulled at such time as the new rate schedules hereinafter authorized became effective for gas service.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby directed, to file new rate sheets for its Illinois gas operations containing new rates as described in Finding (16) hereinabove which will enable Respondent to reasonably obtain gas operating revenues approved herein, said new rate sheets to become effective for service rendered on and after the date of filing same with this Commission.

IT IS FURTHER ORDERED that any objections and motions made in this proceeding that remain undisposed of be, and the same are hereby, disposed of consistent with the ultimate conclusions herein contained.

By order of the Commission this 18th day of June, 1980.

(SIGNED) MICHAEL V. EASTEN

Chairman

(S E A L)

ORDER 80-0511

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Iowa-Illinois Gas and Electric Company :
 : 80-0511
 Proposed general increase in electric :
 and gas rates. :

ORDER

By the Commission:

On July 11, 1980, Iowa-Illinois Gas and Electric Company ("Respondent", "Company" or "Iowa-Illinois") filed 5th Revised Sheet No. 4, 3rd Revised Sheet No. 4.1, 6th Revised Sheet No. 5, 4th Revised Sheet No. 6, 5th Revised Sheet No. 7, 5th Revised Sheet No. 8, 2nd Revised Sheet No. 8A, 5th Revised Sheet No. 9, 2nd Revised Sheet No. 9A, 5th Revised Sheet No. 10, 2nd Revised Sheet No. 10A, 5th Revised Sheet No. 11, 4th Revised Sheet No. 11A, 5th Revised Sheet No. 12, 5th Revised Sheet No. 13, 4th Revised Sheet No. 22, of its Ill.C.C. No. 6 - Electric; 3rd Revised Sheet No. 1, 5th Revised Sheet No. 6, 5th Revised Sheet No. 8, 5th Revised Sheet No. 9, 5th Revised Sheet No. 10, 5th Revised Sheet No. 11, 5th Revised Sheet No. 12, 2nd Revised Sheet No. 11A, of its Ill.C.C. No. 7 - Gas, hereinafter referred to as "Filed Rate Schedule Sheets" in which it proposed a general increase in electric and gas rates in its Illinois service areas effective August 11, 1980.

Notice of the proposed increase in electric and gas rates was posted in Respondent's business offices and published in newspapers of general circulation in the Company's Illinois service area, in accordance with the requirements of Section 36 of "An Act concerning public utilities", as amended, ("Act") and the provisions of General Order 157 of this Commission.

Examination of the Filed Rate Schedule Sheets resulted in a determination by the Commission to enter upon hearings concerning the propriety and reasonableness of the Company's existing and proposed tariffs, and that, pending such hearings and decision thereon, the proposed Filed Rate Schedule Sheets should not be allowed to become effective. On August 6, 1980, as corrected on September 3, 1980, the Commission entered an Order suspending the effective date of the Filed Rate Schedule Sheets to and including December 8, 1980, and on November 19, 1980 resuspended said Filed Rate Schedule Sheets to and including June 8, 1981, in accordance with the provisions of Section 36 of the Act.

Pursuant to notice, as shown by the docket sheets maintained by the Chief Clerk of this Commission for purposes of this cause, as required by law and the rules and regulations of this Commission, the initial hearing was scheduled and held in this cause on September 26, 1980, before a duly authorized Hearing Examiner at the offices of the Commission in Springfield, Illinois. Respondent and Staff members of the Commission's Engineering Department, the Economics and Rates Department and the Accounts and Financial Department entered appearances at said initial hearing as well as at subsequent hearings.

On August 7, 1980, the Department of Defense of the United States filed a petition seeking leave to intervene in this cause, which petition was granted by Order of the

The witness concluded that the conservative average cost for capital maintenance for Respondent was 16.0% and the capital attraction rate for Respondent was 16.8%. The witness then utilized a limited horizon discounted cash flow approach to calculate the rate of return for purposes of the fair value rate base. It was the conclusion of the witness that it would be appropriate to use a 12.5% rate of return on the fair value rate base attributable to common equity.

The second witness testifying on behalf of Respondent was its Vice President-Finance, who also serves as a Director of the Company. The Vice President testified in detail as to the financing requirements of Respondent for the foreseeable future.

After various analysis, this witness concluded that, in his opinion, a reasonable return to be earned would be 16% on common equity based upon an original cost rate base, or 8.5% on common equity on a fair value rate base where the weighting of the trended original cost depreciated in the fair value rate base is at least as great as the weighting of common equity in the capital structure.

A staff witness from the Accounts and Financial Department presented testimony with regard to the fair rate of return on an original cost rate base. Utilizing a DCF approach, the Staff witness found a cost of common equity for the Company for the test year ended May 31, 1980 of 17.03%. Utilizing an approach which considered the return on aggregate outstanding market value, the Staff witness found a cost of common equity of 14.54% for the same test year. Finally, the Staff witness considered the spread of yields between common stocks and AA bonds which indicated a cost of common equity for the Company of 16.01% for the test year. Based upon his analyses, the Staff witness concluded that a reasonable range for the cost of common equity for Respondent is from 14.54% to 17.03%.

At the hearing on March 24, 1981 a witness for the Company introduced Respondent's Exhibits 102 and 108 which show the Company's capitalization at December 31, 1980, adjusted for first quarter 1981 financings. No party to the proceedings had any objections to the inclusion of this evidence in the record.

The Commission is of the opinion that such capital structure, as the most current, is reasonable and will be adopted for the purposes of this proceeding. The components are as follows:

Description (1)	(\$000) (2)	Ratio (3)	Cost of Capital (4)	Composite Cost of Capital (5)
Long-term debt	\$313,418	48.3%	8.38%	4.05%
Preferred stock	20,000	3.1	5.98	.19
Preference stock	83,224	12.8	10.54	1.35
Total long-term debt and preferred and preference stock	\$416,642	64.2%		5.59%
Common equity	231,884	35.8	14.67	5.25%
Total Capitalization	\$648,526	100.0%		10.84%

After having considered all of the evidence pertaining to rate of return the Commission is of the opinion that reasonable and appropriate rates of return that the Company

If the Rate Schedule Sheets filed by Respondent on July 11, 1980 were incorporated into the tariff applicable to Illinois customers, the pro forma test year operating results would be as follows:

Illinois Operations
(S000 omitted)

	<u>Illinois Electric Operations</u>	<u>Illinois Gas Operations</u>	<u>Combined Operations</u>
Operating Revenues	\$ 78,329	\$ 60,628	\$138,957
Operating Expenses	59,449	56,654	116,103
Operating Income	\$ 18,880	\$ 3,974	\$ 22,854
Less: Non-jurisdictional	899	---	899
Jurisdictional Operating Income	\$ 17,981	\$ 3,974	\$ 21,955

Jurisdictional operating electric income of \$17,981,000 and gas operating income of \$3,974,000 and a combined operating income of \$21,955,000 would result in the following overall rates of return on the respective original cost and fair value rate bases approved herein:

Illinois Operations
Pro Forma Proposed Rates
Test Year Ended May 31, 1980

<u>Description</u>	<u>Return On Original Cost</u>	<u>Return On Fair Value</u>
Illinois Electric Operations	10.91%	8.84%
Illinois Gas Operations	10.67%	8.84%
Combined Operations	10.87%	8.84%

RATE OF RETURN

Respondent presented the testimony of two witnesses relative to the rate of return which it should be allowed the opportunity to earn on the used and useful property allocated and dedicated to providing electric and gas service to its Illinois customers.

A professor of finance from the University of Iowa, College of Business Administration, testified on behalf of Respondent. The witness reviewed the general impact of inflation on the financial markets; the rising riskiness in the returns on securities and projections of economic variables; the relationships between book value per share, market price and interest rates; the extent to which public utilities must draw upon the capital market for funds needed to fulfill their obligations; and the differences between business risk and financial risk. The witness then utilized five different approaches to determine the cost of common equity component of the overall rate of return for the Respondent. The five approaches were (1) limited horizon DCF; (2) standard DCF; (3) standard DCF plus allowance for a change in P/E ratio; (4) a utility bond rate plus market-risk allowance; and (5) maintenance of times-interest-earned, after-tax level. Utilizing these five approaches, the witness established ranges of common equity cost as follows:

1.	15.34	-	18.91
2.	13.8	-	15.1
3.	13.00	-	23.00
4.	12.82	-	18.97
5.	15.11	-	15.91

- (9) use of a pro forma test year ended May 31, 1980 based upon actual operating data is appropriate for ratemaking purposes in this case;
- (10) the original cost rate base for Respondent's jurisdictional electric operations for the test year ended May 31, 1980 is \$164,749,000; the fair value rate base for Respondent's jurisdictional electric operations for the test year ended May 31, 1980 is \$203,493,000;
- (11) the original cost rate base for Respondent's gas operations for the test year ended May 31, 1980 is \$37,233,000; the fair value rate base for Respondent's gas operations for the test year ended May 31, 1980 is \$44,952,000;
- (12) Respondent's jurisdictional electric operating income for the test year ended May 31, 1980, as adjusted, was \$10,534,000; Respondent's gas operating income for the test year ended May 31, 1980, as adjusted, was \$3,134,000; Respondent's combined jurisdictional operating income for the test year ended May 31, 1980, as adjusted was \$13,719,000, which is the amount available to Respondent for return under its present rates;
- (13) rates which are now in effect for electric service furnished to the Illinois customers of Respondent are inadequate, unjust and unreasonable in that they do not produce a reasonable return to Respondent on its investment in electric plant used and useful in its Illinois operations and recovery of operating costs of electric service furnished to its Illinois customers; existing rates which result in such unjust and unreasonable operations are not in all respects just and reasonable and should be permanently cancelled and annulled when rates allowed to become effective by virtue of this Order become effective;
- (14) rates which are now in effect for gas service furnished to the Illinois customers of Respondent are inadequate, unjust and unreasonable in that they do not produce a reasonable return to Respondent on its investment in gas plant used and useful in its Illinois operations and recovery of operating costs for gas service furnished to its Illinois customers; existing rates which result in such unjust and unreasonable operations are not in all respects just and reasonable and should be permanently cancelled and annulled when rates allowed to become effective by virtue of this Order become effective;
- (15) rates proposed herein by Respondent for its jurisdictional electric operations in Illinois would produce an overall rate of return of 10.91% on the original cost rate base of \$164,749,000 and an overall rate of return of 8.84% on the fair value rate base of \$203,493,000;
- (16) rates proposed herein by Respondent for its gas operations in Illinois would produce an overall rate of return of 10.67% on the original cost rate base of \$37,233,000 and an overall rate of return of 8.84% on the fair value rate base of \$44,952,000;

should be authorized on its fair value rate bases are 8.81% on electric and 8.84% on gas. The above return on original cost rate base of 10.84% results in a return of 14.67% on common equity. This return is within the range as testified to by staff.

The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) Respondent is an Illinois corporation, engaged in the generation and supply of electric energy and the distribution and sale of natural gas in Illinois and elsewhere and is a public utility within the meaning of an Act entitled, "An Act concerning public utilities", as amended;
- (2) the Commission has jurisdiction over the Respondent and of the subject matter herein;
- (3) on July 11, 1980, Respondent filed with this Commission Rate Schedule Sheets containing rate schedules by which it proposed certain changes and a general increase in electric and gas rates for various classifications of service, effective August 11, 1980; said tariff filing was accompanied by an appropriate supplemental statement in accordance with the rules of the Commission;
- (4) due notice of the filing of said Filed Rate Schedule Sheets was given pursuant to law and the rules of the Commission;
- (5) on August 6, 1980, the Commission entered an order suspending the effective date of the Filed Rate Schedule Sheets to and including December 8, 1980, and on November 19, 1980, resuspended said Rate Schedule Sheets to and including June 8, 1981, all in accordance with the provisions of Section 36 of the Act;
- (6) notice of the initial hearing held in this cause was mailed by the Chief Clerk of the Commission to Respondent, the Mayor, City Attorney and Clerk of the municipalities located within Respondent's service areas in Illinois and to such other persons or entities as are shown by the docket sheets maintained by the Chief Clerk of the Commission, all in accordance with the rules and regulations of this Commission; notice of subsequent hearing was mailed by the Chief Clerk of the Commission to such parties as are shown by the docket sheets maintained by the Commission for purposes of this case, all in accordance with the rules and regulations of this Commission;
- (7) statements of fact and conclusions reached in the prefatory part of this Order are amply supported by the evidence of record and are hereby adopted as findings of fact;
- (8) methods used by Respondent to allocate property dedicated to the public in Illinois in furnishing electric and gas service to its customers are just and reasonable and are hereby approved for purposes of this case;

proved herein, said new rate sheets to become effective for service rendered on and after the date of filing same with this Commission.

IT IS FURTHER ORDERED that the existing gas rate schedule sheets, for those service classifications for which new gas Rate Schedule Sheets were filed, be, and the same are hereby, permanently cancelled and annulled, effective on the date of this Order.

IT IS FURTHER ORDERED that Respondent be, and it is hereby, directed to file new rate sheets for its Illinois electric operations containing new rates conforming to the applicable provisions of this Order which will enable Respondent to reasonably obtain electric operating revenues approved herein, said new rate sheets to become effective for service rendered on and after the date of filing same with this Commission.

IT IS FURTHER ORDERED that Iowa-Illinois be, and it is hereby, directed to, in conjunction and cooperation with the Commission staff, design a mandatory time-of-day electric rate applicable to Rate 53, Large Industrial Customers, and shall file such a rate with the Commission on or before July 31, 1981.

IT IS FURTHER ORDERED that Iowa-Illinois be, and it is hereby, authorized and directed to file new tariff sheets covering its rates for electric service furnished on and after the filing of said rates in accordance with Finding (18) of this order.

IT IS FURTHER ORDERED that Iowa-Illinois be, and it is hereby, authorized and directed to file new tariff sheets covering its rates for gas service furnished on and after the filing date of said rates in accordance with Finding (20) of this order.

IT IS FURTHER ORDERED that the existing electric rate schedule sheets, for those service classifications for which new electric rate schedule sheets are to be prepared and filed, be, and the same are hereby, permanently cancelled and annulled, effective at such time as the new electric rate schedule sheets are allowed to become effective by virtue of this Order.

IT IS FURTHER ORDERED that Iowa-Illinois be, and it is hereby, authorized and directed to effect a change in its Fuel Cost Adjustment Rider No. 2 in accordance with Finding 21 of this Order.

IT IS FURTHER ORDERED that any objections and motions made in this proceeding that remain undisposed of be, and the same are hereby, disposed of consistent with the ultimate conclusions herein contained.

By order of the Commission this 3rd day of June, 1981.

(SIGNED) MICHAEL V. HASTEN

Chairman

(S E A L)

Commissioner Stalon dissents, in part;
a dissenting opinion will be filed.

- (17) in determining the fair rate of return which Respondent should be allowed on the value of its rate base as herein determined, the Commission has considered all of the evidence of record, Respondent's capital structure at December 31, 1980 as adjusted for financing in the first quarter of 1981, and the principles of just and reasonable rates for utilities, and has concluded that the rates of return of 8.81% and 8.84% on the electric and gas fair value rate bases, respectively, of Respondent are fair and reasonable;
- (18) the rate structure for electric service proposed herein by Respondent for its electric operations in Illinois and Electric Rates 22, 41 and 42, as revised by staff, should be adopted with the following exceptions:
- the difference between the proposed electric rates and the rates authorized by this order should be obtained from an across-the-board reduction of the proposed rates except that the customer charge for Residential Rates 9, 10 and 5 should remain at the proposed level;
- (19) Iowa-Illinois should, in conjunction and cooperation with the Commission staff, design a mandatory time-of-day rate applicable to large industrial customers on Rate 53 and should submit such a rate to the Commission on or before July 31, 1981;
- (20) the rate structure proposed by staff for gas should be adopted;
- (21) the Respondent should be required to roll into base rates 4 mills (.4¢) per kilowatt hour of present Fuel Adjustment Clause revenues by effecting a change in its present Fuel Cost Adjustment Rider No. 2 so that the fourth step of the calculation of its kilowatt hour adjustment which now reads:

"4. The base cost in cents per million BTU for any month shall be 0.3 divided by the product of the heat rate factor multiplied by the ratio of fossil-fuel generation to total generation as determined in '3' above, plus 26.5".

shall be changed to read:

"4. The base cost in cents per million BTU for any month shall be 0.7 divided by the product of the heat rate factor multiplied by the ratio of fossil-fuel generation to total generation as determined in '3' above, plus 26.5".

- (22) any objections and motions made in this proceeding that remain undisposed of should be considered disposed of in a manner consistent with the ultimate conclusions herein contained.

IT IS THEREFORE ORDERED that Respondent be, and it is hereby, directed to file new rate sheets for its Illinois gas operations containing new rates conforming to the applicable provisions of this Order which will enable Respondent to reasonably obtain gas operating revenues ap-

ORDER 81-0747

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

IOWA-ILLINOIS GAS AND ELECTRIC COMPANY :
 : 81-0747
 Proposed general increase in electric :
 and natural gas rates. :

ORDER

By the Commission:

On October 2, 1981, Iowa-Illinois Gas and Electric Company ("Iowa-Illinois", "Company" or "Respondent"), filed its 5th Revised Sheet No. 1, 7th Revised Sheet No. 4, 5th Revised Sheet No. 4.1, 8th Revised Sheet No. 5, 2nd Revised Sheet No. 5A, 2nd Revised Sheet No. 5B, 6th Revised Sheet No. 6, 7th Revised Sheet No. 7, 7th Revised Sheet No. 8, 7th Revised Sheet No. 9, 7th Revised Sheet No. 10, 7th Revised Sheet No. 11, 6th Revised Sheet No. 11A, 7th Revised Sheet No. 12, 7th Revised Sheet No. 13, 6th Revised Sheet No. 22, 4th Revised Sheet No. 23, of Ill. C.C. No. 6 - Electric and 5th Revised Sheet No. 1, 2nd Revised Sheet No. 2, 7th Revised Sheet No. 6, 6th Revised Sheet No. 7, 7th Revised Sheet No. 8, 7th Revised Sheet No. 10, 7th Revised Sheet No. 11, 7th Revised Sheet No. 12, 2nd Revised Sheet No. 13, 4th Revised Sheet No. 13A of Ill. C.C. No. 7 - Gas, hereinafter referred to as "Filed Rate Schedule Sheets", in which it proposed a general increase in electric and natural gas rates in its Illinois service areas effective November 2, 1981.

Notice of the proposed increase in electric and gas rates was posted in Respondent's business offices and published in newspapers of general circulation in the Company's Illinois service area, in accordance with the requirements of Section 36 of "An Act concerning public utilities", as amended, ("Act") and the provisions of General Order 157 of this Commission.

In this proceeding, Respondent has complied with the Standard Filing Requirements for electric and gas utilities set forth in the Commission's General Order 210.

An examination of the Filed Rate Schedule Sheets resulted in a determination by the Commission to enter upon hearings concerning the propriety and reasonableness of the proposed general increase in electric and gas rates, and that, pending hearings and decision thereon, the proposed Filed Rate Schedule Sheets should not be allowed to become effective. On October 28, 1981, the Commission entered an Order suspending the effective date of the Filed Rate Schedule Sheets to and including March 1, 1982, and on February 17, 1982, resuspended said Filed Rate Schedule Sheets to and including September 1, 1982.

Petitions to Intervene in this proceeding were filed by Clarence A. Darrow, pro se, on December 7, 1981; by the Attorney General of the State of Illinois ("Attorney General") on behalf of the People of the State of Illinois on December 11, 1981, and by the Department of Defense of the United States ("Department of Defense") on December 14, 1981. These Petitions to Intervene were granted by the Commission.

Pursuant to notice as required by law and the rules and regulations of this Commission, hearings were held in this cause before a duly authorized Hearing Examiner of the Commission at its offices in Springfield, Illinois on December 11, 1981 and February 8-10, March 15, May 13-14 and June 22-23, 1982. Respondent and members of the Engineering Department, Economics and Rates Department and Accounts and Finance Department of the Public Utilities Division of the Commission ("Staff") entered appearances at the hearings in this matter. The Attorney General and the Department of Defense were

represented and actively participated as Intervenor in the proceedings. At the conclusion of the hearing on June 23, 1982, the record was marked "Heard and Taken." Initial briefs were filed by Respondent, the Attorney General and the Department of Defense. Reply briefs were filed by Respondent and the Attorney General.

The evidentiary record contains a detailed analysis of Respondent's projected operations for the forecasted test year ended June 30, 1983, including the fair value and original cost of Respondent's plant in service together with associated accrued depreciation applicable to the determination of Respondent's rate base, and the cost of money and other matters relating to the appropriate rate of return for Respondent.

NATURE OF RESPONDENT'S OPERATION

Respondent is engaged in the business of generating, transmitting and selling electric energy and distributing and selling natural gas. Electric energy is distributed in the municipalities of Rock Island, Moline and East Moline, Illinois and in Davenport and Bettendorf, Iowa (known as the Quad-Cities area), in Fort Dodge and Iowa City, Iowa, and in certain adjacent communities and surrounding areas. Natural gas is distributed in the aforementioned communities and in Cedar Rapids and Ottumwa, Iowa, and certain other municipalities.

The total electric service area of Respondent includes approximately 1,350 square miles with a population of 410,000. The gas service area has a population of about 580,000. About 39% of the Company's electric revenue and 27% of its gas revenue for 1980 were derived from Illinois operations, the remainder from Iowa operations. For 1980, 46% of gross operating revenues were derived from electric operations and 54% from gas operations. At December 31, 1980, about 81% of the Company's property account (stated at cost) represented electric property, 17% gas property and 2% common property.

Respondent serves about 173,000 electric customers, 67,000 or 39% of whom are located in Illinois and 106,000 or 61% of whom are located in Iowa. Gas customers total about 221,000, many of whom are also electric customers. About 64,000 or 29% of Respondent's gas customers are located in Illinois and 157,000 or 71% in Iowa.

PROPOSED CHANGES IN RATE SCHEDULES

Electric Rate Schedules

Respondent's proposed electric rate schedules would generate an estimated \$15,700,000 (20.3%) of additional electric annual operating revenue based upon projected sales for the 12-months ended June, 1983. Excluding the 2% state add-on gross receipts tax, the increase would amount to approximately \$15,400,000.

The rate structure changes proposed by Respondent in its Filed Electric Rate Schedule Sheets were relatively minor. The principal changes were made in the residential rates. Respondent proposed that Rate 5, the space heating rate, be combined into Rate 10, the regular residential rate. Respondent also proposed that the space heating rider no longer be available to residential customers to be consistent with the elimination of the special end-use residential rate. In addition, summer-winter differentials were proposed to be increased for both residential Rates 9 and 10. An optional

projected growth in demand over a period of years. The optimal reserve level for an electric utility should be examined over a period of years.

In addition, the evidence in the record establishes that Respondent's decisions in adding generating capacity were based upon selecting the alternative which, considering the circumstances at the time of the decision, imposed the least long-run costs on its customers. The evidence establishes that Respondent has actively pursued the marketing of its available power and capacity once its 1980 load forecast indicated it was available. Respondent presented testimony that it has contacted its neighboring utilities in Illinois to discover possible participants in available capacity.

The record indicates that Respondent has attempted to improve its load forecasting methodologies. Respondent decided not to utilize its least squares model in forecasting 1982 peak demand after that model failed to reflect changing conditions in Respondent's service territory.

The adoption of the proposal of the Attorney General's witness could encourage Respondent to select capacity addition alternatives which do not minimize revenue requirements and cost to customers. If Respondent were required to maintain a reserve level at all times between 15% and 25%, Respondent would have an incentive to add capacity in small increments to meet its annual load growth, foregoing the lower installed costs per KW of larger units. Respondent presented testimony that the Ottumwa Generating Station installed cost was \$550 per KW and that the Louisa Generating Station's installed cost is estimated to be \$908 per KW. A witness for Respondent testified that the 150 MW unit being installed by the City of Muscatine, Iowa had projected unit construction costs 30% to 35% higher than the projected unit construction cost for the 650 MW Louisa Unit.

If Respondent is successful in selling participation in the Louisa Generating Station to other utilities, its future reserve margins will decrease. The Attorney General's witness examined Respondent's reserve margin with the Louisa Generating Station in-service; it is important to note that this order does not allow any of Respondent's investment in the Louisa Generating Station in rate base.

The Commission is concerned with the load forecasting abilities and reserve margins of Illinois utilities. The Commission has been conducting an investigation in Docket No. 76-0569 of the load forecasting methodologies utilized by Illinois utilities and has proposed, as General Order 215, rules which would require Illinois utilities to regularly report to the Commission regarding their load forecasting efforts. In addition, the Commission has been investigating, in Docket No. 79-0070, appropriate levels of reserves for major Illinois electric generating utilities, including Respondent. The Commission will continue its efforts to investigate the load forecasting efforts and reserve margins of Illinois utilities, currently underway in Docket Nos. 76-0569 and 79-0070.

RATE OF RETURN

Respondent presented the testimony of two witnesses relative to the rate of return which it should be allowed the opportunity to earn on the used and useful property allocated and dedicated to providing electric and gas service to its Illinois customers.

One witness for Respondent, a First Vice President and member of the Board of Directors of Paine Webber Mitchell Hutchins, Inc., measured the cost of common equity capital for Respondent by considering three tests - risk premiums, discounted cash flow, and financial integrity. In administering the three tests, the witness considered Respondent's construction program; its financial integrity level and recent financing experiences; its competitors for investment capital; economic conditions and investor attitudes; and the criteria established in the Hope Natural Gas Company and Bluefield Waterworks Supreme Court Decisions. With respect to his risk premium test, the witness concluded that the required return on Respondent's common stock would be 18.2%, before adjusting for issuance costs. Said conclusion was based on the cost of lowest risk long-term capital (U.S. government bonds) and his determination of the difference in risk between government bonds and Respondent's common stock. With respect to his discounted cash flow ("DCF") test, the witness found that a sustainable growth component for Respondent would be 6.1%. He then calculated a required return on Respondent's common equity of 18.4%. His third test considered whether a realized return of 18% to 18.5% would be sufficient to enable Respondent to achieve a satisfactory level of financial integrity. He concluded that if Respondent actually realized an 18% return on its common equity capital, it would come close to achieving a satisfactory level of financial integrity. He testified that financial integrity is the condition where Respondent (1) generates cash flow to construction of at least 50%; (2) maintains its double A bond rating; (3) sells new common stock at least at book value; (4) possesses adequate financial strength and financial flexibility, or a common equity ratio of at least 40%; (5) earns a fair return of good quality on invested capital which enables it to attract capital at reasonable costs and support the other financial integrity criteria and (6) achieves a satisfactory level of financial integrity so that rates and returns are fair to its customers and investors.

The Attorney General criticized the aforesaid witness' risk premium test, stating that it is based on the currently invalid assumption that common equity is more risky than debt and the rate of return for equity must be proportionally higher than the interest rate on bonds. The Attorney General also criticized the witness' use of data for industrial companies in his DCF test. The Attorney General alleged that the record in this case indicates that Respondent's financial integrity is sufficient and improving.

The second witness testifying on behalf of Respondent was its Vice President-Finance. The witness testified in detail as to the financing requirements of Respondent for the foreseeable future. The witness determined that if Respondent actually earned a rate of return of 18% on common equity, it would be able to finance needed construction for the foreseeable future and satisfy customer requirements in an economical manner. He reached his rate of return recommendation by utilizing a method which adjusts the book common equity for inflation occurring since 1942 and applying to it a rate of return derived from a pure interest factor and investment risk with no inflationary allowance. He testified that Respondent's dividend yield as of June 22, 1982 for Respondent's common stock was 12.6% and that a sustainable dividend growth rate for Respondent was 6%, resulting in a rate of return on common equity under a DCF method of 18.6%, before adjusting for issuance costs. However, he testified that if Respondent can earn a return of 16.1% on common equity, it can increase its dividend 6% annually without ever increasing its dividend payout ratio, unless it experiences substantial sales of common stock below book value which he does not foresee.

A Staff witness testified that an adequate return on Respondent's common equity would be in the range of 16.27% to 17.27%. He determined that the spread between yields on distributed AA rated utility bonds and yields on electric utility common stocks is 1.08%. He then determined that Respondent's distributed AA bonds were, at the time of his testimony, yielding 15.69% on the average. He added the 15.69% to the 1.08% spread to arrive at a cost of common equity for Respondent of 16.77%. His 16.27% to 17.27% range encompasses the 16.77% figure. His calculations were based on data reported by Moody's. On cross-examination, it was established that the Staff witness had used spot data for the first week of March, 1982 in calculating his recommended rate of return and that spot yields on utility bonds fluctuate rapidly.

A witness for the Attorney General utilized two methods in determining a fair rate of return on Respondent's common equity, a DCF analysis and the capital asset pricing model ("CAPM"). He testified that the DCF method expresses the current cost of equity capital as the sum of expected dividend yields plus expected growth of earnings. In his DCF analysis, he utilized data for the S&P 22 utilities. He determined that Respondent's risk was comparable to the risk of the average company in the S&P 22. His DCF analysis resulted in a 15.5% to 16.5% cost of equity range for Respondent.

The witness testified that the CAPM states that the cost of equity depends upon a stock's contribution to the risk of a well-diversified portfolio. Under CAPM theory, the expected return for a particular security is equal to the return on a risk-free asset plus a risk premium based on beta. The beta measures the nondiversifiable risk associated with a security. If the beta is below 1.0, the security is perceived by investors as being less risky than an average security. He determined that Respondent's beta was .6. Using the CAPM approach, he calculated a cost of common equity for Respondent in a range of 16.1% to 16.7%.

On rebuttal, a witness for Respondent criticized the CAPM theory, stating that it is not widely used by investors and is not a useful tool for determining the market's perception of the cost of common equity for Respondent. He also testified that the risk-free rate of return and the beta utilized by the Attorney General's witness in his CAPM for Respondent were both too low. He stated that the Attorney General's witness failed to adjust Respondent's cost of common equity for market pressure and issuance costs. He also criticized the Attorney General witness' use of average dividend yield and growth rates for the S&P 22 utilities in his DCF analysis. He stated that said figures reflect industry averages and do not reflect Respondent's specific dividend yields and growth rate.

In determining the cost of common equity, it is apparent that there are a number of different approaches that can be used. The Commission's decision on this issue must be based upon reasoned judgment. In reaching its decision in this matter, the Commission has considered the methods utilized by the witnesses in this proceeding to determine a fair rate of return on Respondent's common equity, Respondent's financial condition, construction program, interest coverages, and cash flow and all the evidence in the record, and is of the opinion that Respondent should be authorized to earn a return on common equity of 16.00%.

Respondent proposed that its estimated average capitalization for the 12 months ended June 30, 1983 be utilized as its capital structure in this proceeding. Neither Staff witnesses nor intervenors objected to said capital structure or to the

cost of Respondent's long-term debt, preferred stock and preference stock as determined by Respondent. Respondent's proposed capital structure is appropriate. With the cost of common equity of 16.00%, Respondent's capital structure and cost of capital approved herein is as follows:

IOWA-ILLINOIS GAS AND ELECTRIC COMPANY
Capitalization and Cost of Capital
Estimated Average Twelve Months Ended June 30, 1983

	<u>Amount</u> <u>(\$000)</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted</u> <u>Cost</u>
Long-term debt	\$368,990	49.39%	9.36%	4.62%
Preferred and Preference stock	101,064	13.53	9.69	1.31
Common equity	277,053	37.08	16.00	5.93
TOTAL	<u>\$747,107</u>	<u>100.00%</u>		<u>11.86%</u>

The authorized return of 16.00% on equity will provide a return on original cost rate base, under the capital structure herein approved, of 11.86%.

The Commission is further of the opinion that the fair rate of return that Respondent should be authorized to earn on fair value rate base is 9.11% for electric and 9.11% for gas. These rates of return would provide operating income of \$19,251,590 for electric service and \$4,299,120 for gas. To earn this income will require additions to operating revenues, including revenue taxes, of \$8,601,540 for electric and \$2,450,070 for gas. The rate increases shall be in accordance with the rate design approved in this order.

The Commission, having examined the proposed rate increases and having considered all the evidence introduced in this proceeding, and being fully advised in the premises, finds that:

- (1) Respondent is an Illinois corporation, engaged in the generation and distribution of electric energy and the distribution and sale of natural gas to the public in Illinois and elsewhere and is a public utility within the meaning of an Act entitled, "An Act concerning public utilities", as amended;
- (2) the Commission has jurisdiction over the Respondent and of the subject matter herein;
- (3) the recitals of fact and conclusions reached in the prefatory portion of this Order are supported by evidence of record, and are hereby adopted as findings of fact;
- (4) the test year for the determination of the rates herein found to be just and reasonable should be the 12 months ended June 30, 1983; such test year is appropriate for purposes of this proceeding;
- (5) the rate structures proposed by Respondent for its electric and gas rates are reasonable and should be adopted, with the exception that the existing relationship between Gas Rate 81 and the gas firm rates should be maintained as discussed in the prefatory portion of this order;
- (6) Respondent should be ordered to initiate a plan to perform a gas marginal cost of service study, such plan to be submitted at the time Respondent files its next gas rate case;

- (7) Respondent should be ordered to comply with the six recommendations set forth in the prefatory portion of this order pertaining to cost-of-service and electric rate structure in its next electric rate case;
- (8) Respondent should be permitted to implement the Uniform Fuel Adjustment Clause to be effective on August 31, 1982;
- (9) methods used by Respondent to allocate property dedicated to the public in Illinois in furnishing electric and gas service to its customers are just and reasonable and are hereby approved for purposes of this case;
- (10) for purposes of this proceeding, the original cost rate base for Respondent's jurisdictional electric operations for the test year ended June 30, 1982 is \$162,228,000; the fair value electric rate base for Respondent's jurisdictional electric operations for said test year is \$211,378,000;
- (11) for purposes of this proceeding, the original cost gas rate base for the test year ended June 30, 1982 is \$36,225,000; Respondent's fair value gas rate base for said test year is \$47,168,000;
- (12) a just and reasonable rate of return which Respondent should be allowed to earn on its fair value rate base for electric service is 9.11%; Respondent should be authorized to increase its electric revenues by approximately \$8,601,540 to produce net annual jurisdictional operating income of approximately \$19,251,590 based on the test year approved herein;
- (13) a just and reasonable rate of return which Respondent should be allowed to earn on its fair value rate base for gas service is 9.11%; Respondent should be authorized to increase its gas revenues by approximately \$1,450,070, which will produce net annual operating income of approximately \$4,299,120;
- (14) rates which are now in effect for electric service furnished to the Illinois customers of Respondent are inadequate, unjust and unreasonable in that they do not produce a reasonable return to Respondent on its investment in electric plant used and useful in its Illinois operations and recovery of operating costs of electric service furnished to its Illinois customers; existing rates which result in such unjust and unreasonable operations are not in all respects just and reasonable and should be permanently cancelled and annulled when rates allowed to become effective by virtue of this Order become effective;

- (15) rates which are now in effect for gas service furnished to the Illinois customers of Respondent are inadequate, unjust and unreasonable in that they do not produce a reasonable return to Respondent on its investment in gas plant used and useful in its Illinois operations and recovery of operating costs for gas service furnished to its Illinois customers; existing rates which result in such unjust and unreasonable operations are not in all respects just and reasonable and should be permanently cancelled and annulled when rates allowed to become effective by virtue of this Order become effective;
- (16) rates proposed herein by Respondent for its jurisdictional electric operations in Illinois would produce a rate of return in excess of a return that is fair and reasonable; the proposed electric rates should be permanently cancelled and annulled;
- (17) rates proposed herein by Respondent for its gas operations in Illinois would produce a rate of return that is in excess of a return that is fair and reasonable; the proposed gas rates should be permanently cancelled and annulled;
- (18) Respondent should file revised rate sheets to obtain the net operating income for its Illinois electric and gas operations which is found herein to be just and reasonable; said rate sheets to become effective within five (5) calendar days after filing same with this Commission for service rendered after the effective date of the tariff, with individual rate sheets to be corrected within that time period, if necessary;
- (19) Respondent was found to be in compliance with the provisions of ERTA, ACRS Section 168(e)(3) and Section 46(f), and Respondent should continue with the applicable accounting and normalization requirements of this Act; to facilitate identification of the effects of ACRS and ERTA in the accounting records of Respondent, separate appropriate sub-accounts will be opened to record such entries;
- (20) all objections and motions made in this proceeding which remain undisposed of should be disposed of consistent with the ultimate conclusions contained in this Order.

IT IS THEREFORE ORDERED that the Suspension Order entered on October 28, 1981, and the Resuspension Order entered on February 17, 1982, in this docket, be, and they are hereby vacated and set aside.

IT IS FURTHER ORDERED that the Filed Rate Schedule Sheets proposing a general increase in electric and natural gas rates in Iowa-Illinois Gas and Electric Company's Illinois service areas, filed by Iowa-Illinois Gas and Electric Company on October 2, 1981, be, and they are hereby, permanently cancelled and annulled.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby, authorized and directed to file new tariff sheets covering its rates for gas service in Illinois to provide net annual operating income of approximately \$4,299,120, applicable to gas service furnished on and after the effective date of said rates, in accordance with Findings (5), (13) and (18) of this Order.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby, authorized and directed to file new tariff sheets covering its rates for electric service in Illinois to provide net annual operating income of approximately \$19,251,390, applicable to electric service furnished on and after the effective date of said rates, in accordance with Findings (5), (12) and (18) of this Order.

IT IS FURTHER ORDERED that the existing gas rate schedule sheets for those service classifications for which new gas rate schedule sheets are to be filed, be, and the same are hereby, permanently cancelled and annulled, effective at such time as the new gas rate schedule sheets are allowed to become effective by virtue of this Order.

IT IS FURTHER ORDERED that the existing electric rate schedule sheets, for those service classifications for which new electric rate schedules are to be filed, be, and the same are hereby, permanently cancelled and annulled, effective at such time as the new electric rate schedule sheets are allowed to become effective by virtue of this Order.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby, authorized and directed to effect a change in its Fuel Cost Adjustment Rider No. 2 in accordance with Finding (8) of this Order.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby, directed to initiate a plan to perform a gas marginal cost of service study in accordance with Finding (6) of this Order.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby, directed to comply with the six recommendations set forth in the prefatory portion of this order pertaining to cost-of-service and electric rate structure in its next electric rate case.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby, authorized and directed to take all steps necessary to obtain all tax benefits pursuant to all appropriate and relevant accounting and normalization requirements of the Economic Recovery Tax Act of 1981, Accelerated Cost Recovery System Section 168(e)(3) and Section 46(f).

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company maintain separate and appropriate sub-accounts to record and identify the effects of such tax deferrals under the Economic Recovery Tax Act of 1981, Accelerated Cost Recovery System Section 168(e)(3) and Section 46(f).

IT IS FURTHER ORDERED that any objections and motions made in this proceeding that remain undisposed of be, and the same are hereby, disposed of consistent with the ultimate conclusions herein contained.

By Order of the Commission this 25th day of August, 1982.

(SIGNED) MICHAEL V. HASTEN

Chairman

(S E A L)

ORDER 82-0892

OFFICIAL FILE

ILL. C. C. DOCKET NO. _____

EX. _____

Witness _____

STATE OF ILLINOIS _____

Date _____

Reporter _____

ILLINOIS COMMERCE COMMISSION

IOWA-ILLINOIS GAS AND ELECTRIC COMPANY :

82-0892

Proposed general increase in electric
and natural gas rates.ORDER

By the Commission:

On November 23, 1982, Iowa-Illinois Gas and Electric Company ("Iowa-Illinois," "Company" or "Respondent") filed its 7th Revised Sheet No. 1, 9th Revised Sheet No. 4, 7th Revised Sheet No. 4.1, 10th Revised Sheet No. 5, 8th Revised Sheet No. 6, 9th Revised Sheet No. 7, 9th Revised Sheet No. 8, 4th Revised Sheet No. 8A, 9th Revised Sheet No. 9, 4th Revised Sheet No. 9A, 2nd Revised Sheet No. 9B, 9th Revised Sheet No. 10, 9th Revised Sheet No. 11, 8th Revised Sheet No. 11A, 2nd Revised Sheet No. 11B, 9th Revised Sheet No. 12, 9th Revised Sheet No. 13, Original Sheet No. 13.1, 8th Revised Sheet No. 21, 6th Revised Sheet No. 23, 2nd Revised Sheet No. 25A, Original Sheet No. 29, and Original Sheet No. 29.1 of its Ill. C.C. No. 6 - Electric and 9th Revised Sheet No. 6, 9th Revised Sheet No. 8, 9th Revised Sheet No. 10, 9th Revised Sheet No. 11, and 9th Revised Sheet No. 12 of its Ill. C.C. No. 7 - Gas, hereinafter referred to as "Filed Rate Schedule Sheets," in which it proposed a general increase in electric and natural gas rates in its Illinois service areas, effective December 24, 1982.

Notice of the proposed increase in electric and gas rates was posted in Respondent's business offices and published in newspapers of general circulation in the Company's Illinois service areas, in accordance with the requirements of Section 36 of "An Act concerning public utilities," as amended, ("Act") and the provisions of General Order 157 of this Commission.

In this proceeding, Respondent has complied with the Standard Filing Requirements for electric and gas utilities set forth in the Commission's General Order 210.

An examination of the Filed Rate Schedule Sheets resulted in a determination by the Commission to enter upon hearings concerning the propriety and reasonableness of the proposed general increase in electric and gas rates, and that, pending hearings and decision thereon, the proposed Filed Rate Schedule Sheets should not be allowed to become effective. On December 21, 1982, the Commission entered an Order suspending the effective date of the Filed Rate Schedule Sheets to and including April 22, 1983, and on April 20, 1983, resuspended said Filed Rate Schedule Sheets to and including October 22, 1983.

Petitions to Intervene in this proceeding were filed by the Attorney General of the State of Illinois ("Attorney General") on behalf of the People of the State of Illinois on January 3, 1983, and by the Department of Defense of the United States ("Department of Defense") on January 10, 1983. These Petitions to Intervene were granted by the Commission.

Pursuant to notice as required by law and the rules and regulations of the Commission, a pre-hearing conference was held in this matter before a duly authorized Hearing Examiner of the Commission at its offices in Springfield, Illinois on

January 15, 1983. Thereafter, evidentiary hearings were held in Springfield, Illinois on March 24-25, March 28-29, June 9-10, June 13-14 and July 18-20, 1983. Appearances were entered on behalf of Iowa-Illinois, the Attorney General and the Department of Defense and by staff members of the Economics and Rates Department and Accounts and Finance Department of the Public Utilities Division of the Commission and the Policy Analysis and Research Division of the Commission ("staff"). At the conclusion of the hearing on July 20, 1983, the record was marked "Heard and Taken."

The record in this case contains over 2,100 pages of transcript plus numerous exhibits. Briefs were filed by Respondent, the Attorney General, the Department of Defense and by an Assistant Attorney General on behalf of Commission staff members. On September 20, 1983, oral argument was held before the Commission and the record was marked "Heard and Taken under Advisement" on that date.

The evidentiary record contains a detailed analysis of Respondent's projected operations for the forecasted test year ended June 30, 1984, including the fair value and original cost of Respondent's plant together with associated accrued depreciation applicable to the determination of Respondent's rate base, and the cost of money and other matters relating to the appropriate rate of return for Respondent.

NATURE OF RESPONDENT'S OPERATIONS

Respondent is engaged in the business of generating, transmitting and selling electric energy and distributing and selling natural gas. Electric energy is distributed in the municipalities of Rock Island, Moline and East Moline, Illinois and in Davenport and Bettendorf, Iowa (known as the Quad-Cities area), in Fort Dodge and Iowa City, Iowa, and in certain adjacent communities and surrounding areas. Natural gas is distributed in the aforementioned communities and in Cedar Rapids and Ottumwa, Iowa, and certain other municipalities.

About 39% of Respondent's electric revenue and 25% of its gas revenue for 1981 were derived from operations in Illinois, the balance coming from operations in Iowa. For 1981, 55% of gross operating revenues were derived from Respondent's gas business, with the remainder derived from its electric business. At December 31, 1981, about 82% of gross utility plant (stated at original cost) represented electric property, 15% gas property, and 3% common property. Respondent serves about 222,000 gas customers, of whom about 64,000, or 29%, are located in Illinois and 158,000, or 71%, in Iowa. Respondent has approximately 174,000 electric customers, of whom about 67,000, or 39%, are located in Illinois and 107,000, or 61%, in Iowa.

TEST YEAR

Pursuant to the provisions of the Commission's General Order 210 ("G.O. 210"), the Company proposed a fully forecasted test year ended June 30, 1984. The forecast was accompanied by the opinion of Arthur Anderson & Co. that the Company had complied with the guidelines for forecasts developed by the American Institute of Certified Public Accountants. As required by G.O. 210, the Company's filing also included actual data for the "historical year" ended June 30, 1983 and a forecast for the "current year" ended June 30, 1983.

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Illinois Operations-Proposed Rates
Test Year Ended June 30, 1984

	<u>Illinois Electric Operations</u>	<u>Illinois Gas Operations</u>	<u>Combined Operations</u>
Operating Revenues	<u>\$111,780</u>	<u>\$77,290</u>	<u>\$189,070</u>
Operating Expenses:			
Operation and Maintenance	\$ 42,956	\$67,192	\$110,148
Depreciation and Amortization	12,865	1,855	14,720
Taxes other than Income Taxes	5,834	809	6,643
Income Taxes	<u>18,859</u>	<u>2,344</u>	<u>21,703</u>
Total Operating Expenses	<u>\$ 80,514</u>	<u>\$72,700</u>	<u>\$153,214</u>
Operating Income	\$ 31,266	\$ 4,590	\$ 35,856
Less: Non-Jurisdictional	<u>1,516</u>	<u>---</u>	<u>1,516</u>
Jurisdictional Operating Income	<u>\$ 29,750</u>	<u>\$ 4,590</u>	<u>\$ 34,340</u>

RATE OF RETURN

Two witnesses testifying on behalf of the Company presented evidence concerning rate of return.

Charles Benore, a First Vice President and member of the Board of Directors of Paine Webber Mitchell Hutchins, Inc., testifying on behalf of the Company, measured the cost of the Company's common equity capital by three tests - risk premium, discounted cash flow ("DCF") comparison with industrial common stocks and financial integrity. Benore testified that in administering the three tests, he considered the Company's construction program, its financial integrity level and recent financing experiences, its competitors for investment capital, economic conditions and investor attitudes, and the criteria established in the Hope Natural Gas Company and Bluefield Water-works Supreme Court Decisions.

With respect to his risk premium test, Benore determined that the required return on the Company's common equity would be 16.8%. His conclusion was based on his determination of the difference between the cost of lowest risk long-term capital (U.S. Government bonds) and the Company's common stock. The 16.8% required return on the Company's common stock was based on an 11% expected yield on long-term U.S. Government bonds and a 5.8% risk premium.

With respect to his DCF test, Benore determined that the required return on common equity of the S&P 400 Industrials was 17.6%, after adjusting for market pressure and issuance costs of 5%. He testified that the Company's risk is less than that of the S&P 400 Industrials and concluded that under the DCF test, a fair rate of return on the Company's common equity would be about 17%. He performed a DCF analysis using the Company's own dividend yield and growth rate. That analysis resulted in a required return on the Company's common equity in the range of 17.3% to 18.3%, after adjusting for issuance costs of 5%.

Benore's third test considered whether a realized return on common equity of 17% would be sufficient to enable Respondent to achieve a satisfactory level of financial integrity. He concluded that if Respondent actually realized a 17% return on its common equity capital, it could achieve a satisfactory level of financial integrity. He testified that financial integrity is the condition where the Company (1) generates cash flow to construction of at least 50%; (2) maintains its double A bond rating; (3) sells new common stock at least at book value; (4) possesses adequate financial strength and financial flexibility; (5) earns a fair return of good quality on its common stock equity which enables it to raise capital on reasonable terms; and (6) achieves a satisfactory level of financial integrity while maintaining rates that are fair to its customers.

Donald Shaw, the Company's Vice President - Finance, testified concerning the Company's financing requirements and coverage ratios. Shaw testified that it is essential to recognize the impact inflation has had on the common equity investor. Shaw determined that the rate of return on common equity in a non-inflationary economy, composed of pure interest for the use of money and compensation for business and financial risk, excluding future inflationary risk, was 8.5%. He determined that a current return on common equity of 18% would be comparable to an 8.5% return in a non-inflationary economy. Shaw concluded that a return of 18% on the Company's common equity, as applied to an original cost rate base, would be fair and reasonable.

Thomas Zepp, a Senior Consultant with Zinder Companies, Inc., testifying on behalf of the Attorney General, utilized two methods in determining a fair rate of return on the Company's common equity, a DCF analysis and the capital asset pricing model ("CAPM"). He testified that under the DCF method, the current cost of common equity capital is equal to the sum of the expected dividend yield plus the expected growth in earnings. In his DCF analysis, Zepp analyzed data for both the S&P 22 utilities and the Company. He determined that the Company's risk was comparable to the risk of the average company in the S&P 22. His DCF analysis resulted in a 14.6% to 15.1% cost of equity range for the Company.

Zepp testified that CAPM theory states that the cost of equity depends on a stock's contribution to the risk of a well-diversified portfolio. Under CAPM theory, the expected return for a particular security is equal to the return on a risk-free asset plus a fraction (the beta) of the expected return investors require to bear the risk of holding the market portfolio. Zepp stated that if the beta is below 1.0, the security is perceived by investors as being less risky than the average security. In his CAPM analysis, Zepp utilized betas of .57 and .60. The .57 beta and the .60 beta are averages of the Value Line beta and his regression estimate of the beta for the Company, and the S&P 22, respectively. Zepp determined that the risk-free rate is 11%, based upon his review of current long-term and intermediate-term Treasury bond rates and a comparison of recent past Treasury rates to current rates. He determined that the market risk premium is in the range of 6.0% to 6.6%. Under his CAPM approach, Zepp calculated a cost of common equity for the Company in a range of 14.4% to 15.0%.

Zepp testified that given the recent drop in the cost of all types of credit, it is reasonable to find that the Company's

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common equity cost is below the level of 16.0% authorized by the Commission in the Company's last rate order. Zepp concluded that the Company's cost of common equity is in the range of 14.6% to 15.1%.

Zepp stated that Benore utilized an inappropriate analysis in reaching his conclusion that the Company's current cost of common equity is 17%. Zepp criticized Benore's comparison of the volatility of an undiversified portfolio of electric utility stocks (the S&P 22) with the volatility of two well-diversified portfolios (the S&P 400 and S&P 500), which Benore utilized in his determination of the risk of electric utilities relative to the risk of average stocks. Zepp stated that such comparisons generally have no meaning since the risk of holding a single stock or a group of stocks in the same industry will be larger than the risk of holding stocks within a well-diversified portfolio.

Stephen Merchant, Vice President of A.J. Rowe & Associates, Inc., testifying on behalf of the Department of Defense, concluded that a fair and reasonable return on the Company's common equity is 15%. He used three approaches to support his recommendation. He first estimated the general cost of common equity by use of a risk premium test and a common stock equity return to inflation test. He determined that based on the equity risk premium expected for common stocks relative to Treasury bills, the cost of common equity is in the range of 13.9% to 16.3%. Merchant determined that based on the relationship between total common stock returns and the expected rate of inflation, the cost of common equity is in the range of 12.1% to 14.3%, with an underlying inflation rate of 6%.

Merchant's second test assessed the Company's actual performance since the Company's last rate order from this Commission entered in Docket No. 81-0747 on August 25, 1982. He noted that the Commission allowed a return of 16% on the Company's common equity in its order in Docket No. 81-0747. He stated that since the Company's last rate order, the Company's market to book ratio has improved significantly, the Company's construction program, consisting primarily of expenditures for Louisa, has been financed without a stock offering, and the Company has maintained its double A bond rating. He stated that at year-end 1982, the Company had earnings of \$3.95 per share on a book value per share of \$23.99, resulting in a realized return on book equity of 16.5%. Merchant assessed the financial integrity of the Company based on the current and expected future status of a number of criteria and concluded that a decrease in the Company's allowed return on equity is justified.

Merchant's third test was a Company specific DCF calculation. He stated that based upon the then current price of \$23.13 per share, the 5.3% annual growth in dividends over the last 5 years and a forward dividend of \$2.48, the cost of common equity is 16%.

John Quackenbush, a staff member of the Economics and Rates Department, utilized a DCF method to determine the Company's cost of equity capital. In his DCF analysis, he utilized data for the Company and 10 comparable utility companies. In selecting a sample of firms comparable in risk to the Company, Quackenbush utilized measures of operating leverage, financial leverage and revenue stability.

In his Company specific DCF analysis, Quackenbush determined that its quarterly dividend yield was 2.62%, based on the most recent quarterly dividend and the current stock price. Quackenbush determined that the Company's quarterly growth rate is in the range of .89% to 1.17%. In determining the growth rate, Quackenbush examined the Company's retention ratios and earned returns on common equity for the period 1978-1982, its current allowed returns in Illinois and Iowa, and the expected earned return for the Company in 1983 and 1985-1987 forecasted in the January 28, 1983 edition of the Value Line Investment Survey. He also examined current growth rate projections of the Company's earnings per share and dividends per share in various investment publications. Quackenbush's Company specific DCF analysis indicated that the cost of the Company's common equity is in the range of 14.90% to 16.18%.

In his comparable sample DCF analysis, Quackenbush utilized the most recent quarterly dividends, the average closing stock prices for the week ended April 22, 1983, and the Merrill Lynch steady state growth rates published in March, 1983. The resulting average cost of common equity for the comparable sample is 14.85%. Based on his DCF analysis, Quackenbush estimated that the Company's cost of common equity is in the range of 14.35% to 16.18%, with a midpoint of 15.52%.

Quackenbush stated that no adjustment should be made to the cost of common equity for market pressure or flotation expenses since the Company has no plans to offer a new public issue of common equity during the next five years and has not issued any common stock subsequent to the last rate case. Quackenbush criticized Benore's utilization of the Company's five and ten year historic growth rates in Benore's Company specific DCF analysis.

On rebuttal, Benore criticized the comparable risk criteria which Quackenbush utilized in selecting his comparable sample. Benore stated that Quackenbush's criteria are not critical to investors. He also criticized Quackenbush's utilization of Merrill Lynch steady state growth rates, stating that there is no basis for determining whether such growth rates reflect investor expectations. Benore stated that a 5% adjustment for issuance costs is essential in a determination of a fair return on the Company's common equity.

Benore criticized Merchant's risk premium test on the basis that it compared a Treasury bill, a short-term security, to common stock, a long-term security. Benore stated that Merchant's utilization of a 6% inflation rate understates investors' expectations of inflation.

Benore criticized Zepp's DCF analysis. He stated that Zepp's growth rate for the Company was too low. Benore stated that two of Zepp's methods which he utilized to calculate growth rates were based on sustainable growth rates. Benore stated that sustainable growth is not the same as actual growth and that investors base investment considerations on actual growth. Benore also criticized the CAPM theory, stating that it is not widely used by investors and is unlikely to reflect investors' required return on the Company's stock.

In determining the cost of common equity, it is apparent that there are a number of different approaches that can be used. The Commission's decision on this issue must be based

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upon reasoned judgment. In reaching its decision in this matter, the Commission has considered the methods utilized by the witnesses in this proceeding to determine a fair rate of return on the Company's common equity, the Company's financial condition, construction program, interest coverages, and cash flow and all the evidence in the record, and is of the opinion that the Company should be authorized to earn a return on common equity of 15.52%.

The Company proposed that its estimated average capitalization for the 12 months ended June 30, 1984 be utilized as its capital structure in this proceeding. Neither staff witnesses nor Intervenor's objected to said capital structure or to the cost of the Company's long-term debt, preferred stock and preference stock as updated by the Company. The Company's proposed capital structure, as updated, is appropriate. With the cost of common equity of 15.52% and the inclusion of unamortized investment tax credits in the Company's capital structure, the Company's capital structure and cost of capital approved herein is as follows:

Estimated Average Twelve Months Ended June 30, 1984

	<u>Amount</u> <u>(\$000's)</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted</u> <u>Cost</u>
Long-Term Debt	\$382,345	44.81%	9.18%	4.11%
Preferred and				
Preference Stock	99,974	11.70	9.69	1.14
Common Equity	308,942	36.16	15.52	5.61
Unamortized Investment				
Tax Credits	62,594	7.33	11.72	0.26
Total	<u>\$854,355</u>	<u>100.00%</u>		<u>11.72%</u>

The authorized return of 15.52% on equity will provide a return on original cost rate base, under the capital structure herein approved, of 11.72%.

The Commission is further of the opinion that the fair rate of return that the Company should be authorized to earn on fair value rate base is 9.44% for electric and 9.17% for gas. These rates of return would provide operating income of \$28,554,520 for electric service and \$4,162,080 for gas. To earn this income will require additions to operating revenues of \$21,089,020 for electric, prior to application of the Louisa Phase-In Clause, and \$565,950 for gas, excluding add-on taxes. The rate increases shall be in accordance with the rate design and revenue allocation approved in this order. After the application of the Louisa Phase-In Clause approved herein, the authorized increase in electric revenues during the first year of operation of the Clause is \$2,110,000.

The Commission, having examined the proposed rate increase and having considered all the evidence introduced in this proceeding, and being fully advised in the premises, finds that:

- (1) Respondent is an Illinois corporation, engaged in the generation and distribution of electric energy and the distribution and sale of natural gas to the public in Illinois and elsewhere and is a public utility within the meaning of an Act entitled, "An Act concerning public utilities," as amended;

- (2) the Commission has jurisdiction over the Respondent and of the subject matter herein;
- (3) the recitals of fact and conclusions reached in the prefatory portion of this Order are supported by evidence of record, and are hereby adopted as findings of fact;
- (4) the test year for the determination of the rates herein found to be just and reasonable should be the 12 months ended June 30, 1984; such test year is appropriate for purposes of this proceeding;
- (5) methods used by Respondent to allocate property dedicated to the public in Illinois in furnishing electric and gas service to its customers are just and reasonable and are hereby approved for purposes of this case;
- (6) the electric rate structure and class revenue allocation discussed and accepted in the prefatory portion of this Order are just and reasonable and should be adopted;
- (7) the rate structure proposed by Respondent for its gas rates is just and reasonable and should be adopted;
- (8) Respondent should be ordered to submit a gas marginal cost of service study at the time Respondent files its next gas rate case;
- (9) Respondent should be permitted to recover through the Uniform Fuel Adjustment Clause, the on-going nuclear fuel disposition costs, commencing upon the effective date of the revised electric rate sheets filed pursuant to this Order;
- (10) Respondent should be permitted to recover, through the Uniform Fuel Adjustment Clause, the interest costs, if any, associated with payment of nuclear fuel disposition costs for the period prior to April 7, 1983, upon advising the Commission of the option for payment selected and the reasons therefore, if the Commission concludes that said payment option is in the best interests of Respondent's customers;
- (11) for purposes of this proceeding, the original cost rate base for Respondent's jurisdictional electric operations for the test year ended June 30, 1984 is \$243,676,000; the fair value electric rate base for Respondent's jurisdictional electric operations for said test year is \$302,595,000;
- (12) for purposes of this proceeding, the original cost gas rate base for the test year ended June 30, 1984 is \$35,518,000; Respondent's fair value gas rate base for said test year is \$45,391,000;
- (13) a just and reasonable rate of return which Respondent should be allowed to earn on its fair value rate base for electric service is 9.44%; Respondent should be authorized to increase its base rate electric revenues by approximately \$21,089,020, excluding add-on taxes,

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to produce net annual jurisdictional operating income of approximately \$28,554,520 based on the test year approved herein;

- (14) a just and reasonable rate of return which Respondent should be allowed to earn on its fair value rate base for gas service is 9.17%; Respondent should be authorized to increase its gas revenues by approximately \$565,950, excluding add-on taxes, which will produce net annual Illinois gas operating income of approximately \$4,162,080;
- (15) rates which are now in effect for electric service furnished to the Illinois customers of Respondent are inadequate, unjust and unreasonable in that they do not produce a reasonable return to Respondent on its investment in electric plant used and useful in its Illinois operations and recovery of operating costs of electric service furnished to its Illinois customers; therefore, existing rates are not in all respects just and reasonable and should be permanently cancelled and annulled when rates allowed to become effective by virtue of this Order become effective;
- (16) rates which are now in effect for gas service furnished to the Illinois customers of Respondent are inadequate, unjust and unreasonable in that they do not produce a reasonable return to Respondent on its investment in gas plant used and useful in its Illinois operations and recovery of operating costs for gas service furnished to its Illinois customers; therefore, existing rates are not in all respects just and reasonable and should be permanently cancelled and annulled when rates allowed to become effective by virtue of this Order become effective;
- (17) rates proposed herein by Respondent for its jurisdictional electric operations in Illinois would produce a rate of return in excess of a return that is fair and reasonable; the proposed electric rates should be permanently cancelled and annulled;
- (18) rates proposed herein by Respondent for its gas operations in Illinois would produce a rate of return that is in excess of a return that is fair and reasonable; the proposed gas rates should be permanently cancelled and annulled;
- (19) Respondent should file revised rate sheets to obtain the net operating incomes for its Illinois electric and gas operations which are found herein to be just and reasonable; said rate sheets to become effective within five (5) calendar days after filing same with this Commission for service rendered after the effective date of the tariff, with individual rate sheets to be corrected within that time period if necessary;
- (20) when Respondent files the revised rate sheets described in Finding (19) of this Order, Respondent should file a rider to its tariffs that implements the Louisa Phase-In Clause in the manner set forth in Respondent's Exhibit 57 in this proceeding, for the first year of the Clause's operation; the costs

deferred during the deferral phase of the Clause are recoverable during the amortization phase of the Clause; after the application of the Louisa Phase-In Clause rider, the authorized increase in Respondent's electric revenues during the first year of operation of the Louisa Phase-In Clause is \$8,110,000;

- (21) within 60 days of the date of this Order, Respondent should file a report with the Commission detailing a method for recovering the entire deferrals associated with Louisa investment during the last 6 years of the Louisa Phase-In Clause pursuant to targeted levelized annual percentage increases; Respondent should file an amended tariff rider 60 days prior to each remaining year of the Louisa Phase-In Clause's operation for Commission review; the amended rider should be based on Respondent's most current sales forecast and other inputs in the Clause; the change in bills due to the operation of the Louisa Phase-In Clause should be listed as a separate item on customers' bills;
- (22) Respondent's proposed accounting for the Louisa Phase-In Clause, discussed in the prefatory portion of this Order and set forth in the Appendix attached to this Order, should be approved;
- (23) Respondent should reclassify Clause transactions where appropriate to conform to the Commission's current Uniform System of Accounts, General Order 180, for purposes of reporting said transactions in its 1983 annual report to the Commission; Respondent should include as part of its annual reports to the Commission a summary of the transactions provided for in the Appendix attached to this Order;
- (24) all objections and motions made in this proceeding which remain undisposed of should be disposed of consistent with the ultimate conclusion contained in this Order.

IT IS THEREFORE ORDERED that the Suspension Order entered on December 21, 1982, and the Resuspension Order entered on April 20, 1983, in this docket, be, and they are hereby, vacated and set aside.

IT IS FURTHER ORDERED that the Filed Rate Schedule Sheets proposing general increases in electric and natural gas rates in Iowa-Illinois Gas and Electric Company's Illinois service areas, filed by Iowa-Illinois Gas and Electric Company on November 23, 1982, be, and they are hereby, permanently cancelled and annulled.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby, authorized and directed to file new tariff sheets covering its rates for gas service in Illinois to provide net annual Illinois gas operating income of approximately \$4,162,080, applicable to gas service furnished on and after the effective date of said rates, in accordance with Findings (7), (14) and (19) of this Order.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby, authorized and directed to file new tariff sheets covering its rates for electric service in

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APPENDIX

LOUISA PHASE-IN CLAUSE ACCOUNTING

Accounting During Deferral Phase

<u>A/C</u>	<u>(1)</u>	<u>Dr.</u>	<u>Cr.</u>
186	Miscellaneous deferred debits	XX	
421	Miscellaneous non-operating income		XX
To record the deferral of Louisa Generating Station equity return.			

(2)

108	Accumulated provision for depreciation of electric utility plant	XX	
403	Depreciation expense		XX
To record the deferral of depreciation on Louisa Generating Station.			

(3)

410.1	Provision for deferred income taxes, utility operating income	XX	
282	Accumulated deferred income taxes - other property		XX
To record the provision of additional deferred taxes due to the deferral of depreciation.			

(4)

411.4	Investment tax credit adjustments, utility operations	XX	
255	Accumulated deferred investment tax credits		XX
To slow down the amortization of the investment tax credit associated with Louisa Generating Station to match the depreciation.			

Accounting During Amortization Phase

<u>A/C</u>	<u>(1)</u>	<u>Dr.</u>	<u>Cr.</u>
405	Amortization of other utility plant	XX	
186	Miscellaneous deferred debits		XX
To amortize the deferred equity return - Louisa Generating Station.			

(2)

403	Depreciation expense	XX	
108	Accumulated provision for depreciation of electric utility plant		XX
To depreciate the deferred depreciation of the Louisa Generating Station over the remaining life of the Station.			

Illinois to provide net annual Illinois jurisdictional electric operating income of approximately \$28,554,520, applicable to electric service furnished on and after the effective date of said rates, in accordance with Findings (6), (13), and (19) of this Order.

IT IS FURTHER ORDERED that the existing gas rate schedule sheets for those service classifications for which new gas rate schedule sheets are to be filed, be, and the same are hereby, permanently cancelled and annulled, effective at such time as the new gas rate schedule sheets are allowed to become effective by virtue of this Order.

IT IS FURTHER ORDERED that the existing electric rate schedule sheets for those service classifications for which new electric rate schedules are to be filed, be, and the same are hereby, permanently cancelled and annulled, effective at such time as the new electric rate schedule sheets are allowed to become effective by virtue of this Order.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby, authorized and directed to file a Louisa Phase-In Clause rider in accordance with Finding (20) of this Order, said rider to become effective on the date that the new electric rate schedule sheets become effective.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company shall comply in all respects with Findings (21) and (23) of this Order.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company be, and it is hereby, authorized and directed to effect a change in its Electric Fuel Adjustment Clause Rider No. 2 in accordance with Finding (9) of this Order.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company shall submit a gas marginal cost-of-service study at the time it files its next gas rate case.

IT IS FURTHER ORDERED that Iowa-Illinois Gas and Electric Company's proposed accounting for the Louisa Phase-In Clause, discussed in the prefatory portion of this Order and set forth in the Appendix attached to this Order, be, and it is hereby, approved.

IT IS FURTHER ORDERED that any objections and motions made in this proceeding that remain undisposed of be, and the same are hereby, disposed of consistent with the ultimate conclusions herein contained.

By Order of the Commission this 13th day of October, 1983.

(SIGNED) PHILIP R. O'CONNOR

Chairman

(S E A L)

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<u>A/C</u>	(3)	<u>Dr.</u>	<u>Cr.</u>
282	Accumulated deferred income taxes - other property	XX	
411.1	Provision for deferred income taxes - credit, utility operating income		XX
	To record the related taxes.		
	(4)		
255	Accumulated deferred investment tax credit	XX	
411.4	Investment tax credit adjustments, utility operations		XX
	To amortize the previously deferred investment tax credit over the remaining life of the Station.		

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

CERTIFICATE

Re: 82-0892

I, ROSE M. CLAGGETT, do hereby certify that I am Chief Clerk of the Illinois Commerce Commission of the State of Illinois and keeper of the records and seal of said Commission.

I further certify that the above and foregoing is a true, correct and complete copy of order made and entered of record by said Commission on October 13, 1983.

Given under my hand and seal of said Illinois Commerce Commission at Springfield, Illinois, on October 14, 1983.

Rose M. Claggett
Chief Clerk